

UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA

FORTUNET, INC.,

Plaintiff,

vs.

eQUBE INTERNATIONAL, INC., et al.,

Defendants.

Case No. 2:15-cv-00312-APG-CWH

ORDER

This matter is before the Court on Defendants eQube International Inc. and DeWayne Wooten's Motion to Stay Discovery Pending Resolution of their Motion to Dismiss (ECF Nos. 42, 43), filed on July 17, 2015. Plaintiff FortuNet, Inc. filed an Opposition (ECF No. 48) on August 6, 2015. Defendants eQube and Wooten filed a Reply (ECF No. 50) on August 11, 2015. Defendant Jack Coronel filed a joinder to the motion to stay (ECF No. 45) on July 30, 2015.

BACKGROUND

FortuNet manufactures and distributes a bingo software system called "Bingo Star" to casinos in Nevada. Coronel and Wooten are former FortuNet employees. eQube is also a manufacturer and distributor of electronic bingo games. In a previous state court action, FortuNet claimed that Coronel and Wooten used FortuNet's labor and material resources to deploy "Game Strategies" on the Bingo Star system, and entered into contracts with FortuNet's customers wherein Coronel charged casinos a fee for the "Game Strategies." In that case, a jury ruled that Coronel and Wooten conspired to convert FortuNet's physical and intellectual property for their own benefit by soliciting FortuNet's customers to pay a fee for the "Game Strategies." Coronel, in turn, obtained a judgment against FortuNet in which

1 the state court found that the “Game Strategies” program was Coronel’s exclusive property.

2 According to FortuNet’s complaint (ECF No. 1), Coronel, armed with the state court judgment,
3 allegedly contacted FortuNet’s customers and represented that at least one of the FortuNet’s bingo
4 games deployed on the Bingo Star system belongs to Coronel. Coronel allegedly told FortuNet’s clients
5 that some of the FortuNet’s bingo games are the subject matter of a Coronel-authored pending patent
6 application. FortuNet also complains that Coronel has issued subpoenas seeking financial records
7 relating to the Bingo Star games to FortuNet’s customers. Wooten and eQube are alleged to have
8 attempted to induce FortuNet’s customers to either cancel their contracts with FortuNet or refuse to
9 renew their contracts and to instead contract with eQube.

10 Wooten and eQube argue for a stay of discovery pending the disposition of their motion to
11 dismiss (ECF No. 12) because they believe their motion is dismiss is meritorious and will resolve the
12 entire case against them. Specifically, they argue that the court’s subject matter jurisdiction is based
13 upon an alleged violation of the Lanham Act, 15 U.S.C. § 1125(a), but that there are insufficient
14 allegations in the complaint to support such a violation.

15 FortuNet responds that it has set forth specific allegations against the eQube defendants under
16 the Lanham Act based on their acting in concert with Coronel to misuse the state court judgment to
17 misrepresent the origin of the content contained on the Bingo Star system. FortuNet argues this created
18 confusion in the electronic bingo industry, damaged FortuNet’s trademark and caused the loss of at
19 least one customer. Additionally, FortuNet argues the declaratory judgment action provides an
20 independent basis for federal question jurisdiction under the Lanham Act and the work for hire doctrine
21 under the Copyright Act, 17 U.S.C. § 101.

22 Specifically, FortuNet argues that it has stated a plausible claim for relief under a Lanham Act
23 “reverse passing off” theory, which occurs when one party purchases or otherwise obtains a second
24 party’s goods, removes the second party’s name, and then markets the product under its own name.
25 Additionally, it argues that it has connected the eQube defendants with Coronel through a conspiracy
26 theory. Finally, it argues that although it did not allege a violation of the Copyright Act, subject matter
27 still exists under the Act because the allegations require an interpretation of the Act under the work-for-
28 hire doctrine. Alternatively, FortuNet points out that it has requested discovery in order to respond to

1 Coronel's Motion for Summary Judgment (ECF No. 15).

2 Wooten and eQube reply that FortuNet has failed to allege any misconduct by eQube or
3 Wooten, but rather has simply lumped all defendants together and failed to identify each defendant's
4 role in the fraud. As to the "reverse passing off" theory, they reply that the only allegations in the
5 complaint against eQube and Wooten are that Wooten, while employed by eQube, attempted to induce
6 FortuNet's customers to become eQube customers. Defendants contend that there are no allegations
7 that defendants obtained the Bingo Star system, removed references to FortuNet from it, and then tried
8 to sell it under their own name. They argue that the word "copyright" is not mentioned in the
9 complaint, and its claim is premised upon the work-for-hire doctrine related to work that Coronel did
10 while employed by FortuNet, which has nothing to do with eQube or Wooten. As to FortuNet's
11 declaratory judgment action, Wooten and eQube argue that they were not parties to the Coronel
12 judgment, and therefore there can be no controversy related to their rights and obligations under that
13 judgment.

14 DISCUSSION

15 The Federal Rules of Civil Procedure do not provide for automatic stays of discovery when a
16 potentially dispositive motion is pending. *Skellercup Indus. Ltd. v. City of L.A.*, 163 F.R.D. 598, 600-
17 01 (C.D. Cal 1995) (stating that a stay of discovery is directly at odds with the need for expeditious
18 resolution of litigation). Thus, the fact that a dispositive motion is pending is not "a situation that in
19 and of itself would warrant a stay of discovery." *Turner Broad. Sys., Inc. v. Tracinda Corp.*, 175
20 F.R.D. 554, 556 (D. Nev. 1997) (quotation omitted). Nor does the fact that "discovery may involve
21 some inconvenience and expense" automatically warrant a stay of discovery. *Id.* Rather, the Court
22 weighs Rule 1's directive that the Federal Rules of Civil Procedure must "be construed and
23 administered to secure the just, speedy, and inexpensive determination of every action" against "the
24 underlying principle that a stay of discovery should only be ordered if the court is convinced that a
25 plaintiff will be unable to state a claim for relief." *Tradebay, LLC v. eBay, Inc.*, 278 F.R.D. 597, 603
26 (D. Nev. 2011). The party seeking the stay "carries the heavy burden of making a 'strong showing' why
27 discovery should be denied." *Turner Broad. Sys., Inc.*, 175 F.R.D. at 556.

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1 In determining whether to stay the discovery, the Court considers whether (1) the pending
2 motion is potentially dispositive of the entire case or at least dispositive of the issue on which discovery
3 is sought, and (2) the pending potential dispositive motion can be decided without additional discovery.
4 *Ministerio Roca Solida v. U.S. Dep't of Fish & Wildlife*, 288 F.R.D. 500, 506 (D. Nev. 2013). This
5 analysis requires the Court to take a “preliminary peek” at the merits of the pending dispositive motion.
6 *Tradebay*, 278 F.R.D. 597 at 603. It is within the Court’s broad discretion to control discovery to
7 determine whether a stay of discovery is appropriate. *Little v. City of Seattle*, 863 F.2d 681, 685 (9th
8 Cir. 1988).

9 Here, the Court has taken a “preliminary peek” at the pending dispositive motion and finds that
10 eQube and Wooten have made the strong showing necessary to support the requested stay. At the heart
11 of FortuNet’s case is the claim that eQube and Wooten violated the Lanham Act by conspiring with
12 Coronel to create confusion in the marketplace regarding the ownership of the Bingo Star games. A
13 careful review of the complaint reveals, however, that FortuNet has made no claims regarding any
14 misrepresentations by eQube or Wooten, nor has it identified the specific role that eQube and Wooten
15 played in the conspiracy. *See Destfino v. Reiswig*, 630 F.3d 952, 958 (9th Cir. 2011) (stating that Rule
16 9(b) “does not allow a complaint to . . . lump multiple defendants together but require[s] plaintiffs to
17 differentiate their allegations when suing more than one defendant.”).

18 Regarding FortuNet’s “reverse passing off” theory, the complaint alleges that eQube and
19 Wooten attempted to induce FortuNet’s customers to become eQube customers, but provides no detail
20 to support the allegation that defendants obtained a Bingo Star system and then removed references to
21 FortuNet from it and then tried to sell it under its own name. *See Summit Mach. Tool Mfg. Corp. v.*
22 *Victor CNC Sys.*, 7 F.3d 1434, 1437 (9th Cir. 1993) (stating that express reverse passing off “occurs
23 when one party purchases or otherwise obtains a second party’s goods, removes the second party’s
24 name, and then markets the product under its own name.”).

25 FortuNet’s claim based upon the work-for-hire doctrine related to work that Coronel did while
26 he was employed by FortuNet, but that claim is not factually connected to eQube or Wooten. Nor is the
27 claim for declaratory judgment a controversy related to the parties’ rights and obligation under the state
28 court judgment because eQube and Wooten are not parties to that judgment.

1 Based upon the current pleading, no additional discovery is needed to decide the motion to
2 dismiss, and it is potentially dispositive of all the issues related to eQube and Wooten. It does not
3 appear that FortuNet's claims against eQube and Wooten support federal question jurisdiction, and so
4 the Motion to Stay discovery is granted.

5 Defendant Coronel joined eQube's and Wooten's motion for stay, but provided no analysis
6 regarding the sufficiency of the complaint as it relates to him. Accordingly, Coronel's joinder (ECF
7 No. 45) is denied without prejudice.¹ Discovery will proceed as to Defendant Coronel as set forth in the
8 discovery order (ECF No. 26).

9 **IT IS HEREBY ORDERED** the Wooten's and eQube's motion to stay of discovery pending
10 resolution of the motion to dismiss (ECF Nos. 42, 43) is **granted**.

11 **IT IS FURTHER ORDERED** that if the district judge denies the motion to dismiss, the parties
12 must meet and confer and file a proposed discovery plan and scheduling order within 14 days from the
13 date of the order denying the motion to dismiss. The proposed discovery plan and scheduling order
14 must comply with LR 26-1(e), with discovery deadlines measured from the date of the order on the
15 motion to dismiss.

16 DATED: September 16, 2015.

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19 **C.W. Hoffman, Jr.**
20 **United States Magistrate Judge**

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26 ¹ FortuNet has requested the ability to conduct Rule 56(d) discovery in order to adequately
27 defend against Coronel's Motion for Summary Judgment, but that is a matter within the discretion of
28 Judge Gordon, the assigned district judge in this matter, who will rule upon the Motion for Summary
Judgment.